CANADIAN SUPERIOR OIL LTD.

JAMES RICHARDSON & SONS
Established 1857
INVESTMENT DEALERS
1966

CANADIAN SUPERIOR OIL LTD.

JAMES RICHARDSON & SONS

RESEARCH DEPARTMENT

January, 1966

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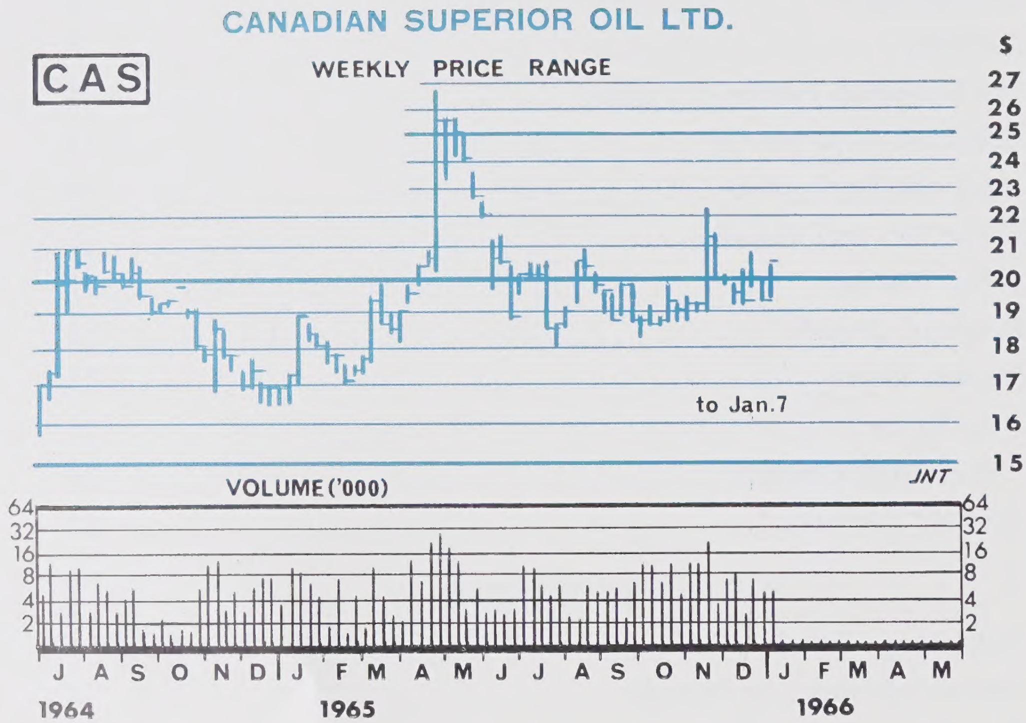


PRESENT CAPITALIZATION

The Company has no funded debt or preferred shares outstanding.

Common Stock	Par Value $1.00
Authorized	10,000,000 shares
Outstanding	8,501,516 shares

Some 53.6% of the shares are held by The Superior Oil Company (U.S.).

The shares are listed on the Toronto, American and Pacific Coast Stock Exchanges.

The shares are exempt from the U.S. Interest Equalization Tax.

CANADIAN SUPERIOR OIL LTD.

SUMMARY

The shares of Canadian Superior provide a sound means of participating in the most active exploration period to date in Western Canada. While the shares are in a position to reflect results of this intensive programme they are also soundly based and are attractive from the more fundamental point-of-view of present worth.

Probably of greatest exploratory interest at present is the Company's large land position in northwestern Alberta. Much of this land is near the new Rainbow Lake discoveries, while other acreage ranges farther to the north in an area geologically favourable for the Keg River reef, which is productive at Rainbow. Results of drilling in the area during this winter and next could have an important influence on share prices.

Accounting methods are conservative. Under the "full cost" method now used by most of the larger Canadian oil exploration companies Canadian Superior would have reported a net profit in excess of $2.00 per share in 1964 (not including a reserve for future taxes).

Earnings per share of Canadian Superior likely were lower in 1965, a result of the amalgamation with The Calgary & Edmonton Corporation and a much enlarged exploration programme. Cash flow remained high, however. At current prices the shares are 9 - 9½ times estimated 1965 cash flow per share.

The Company is financially strong and an aggressive operator. Management is capable and ranks with the best among the Canadian oil and gas companies.

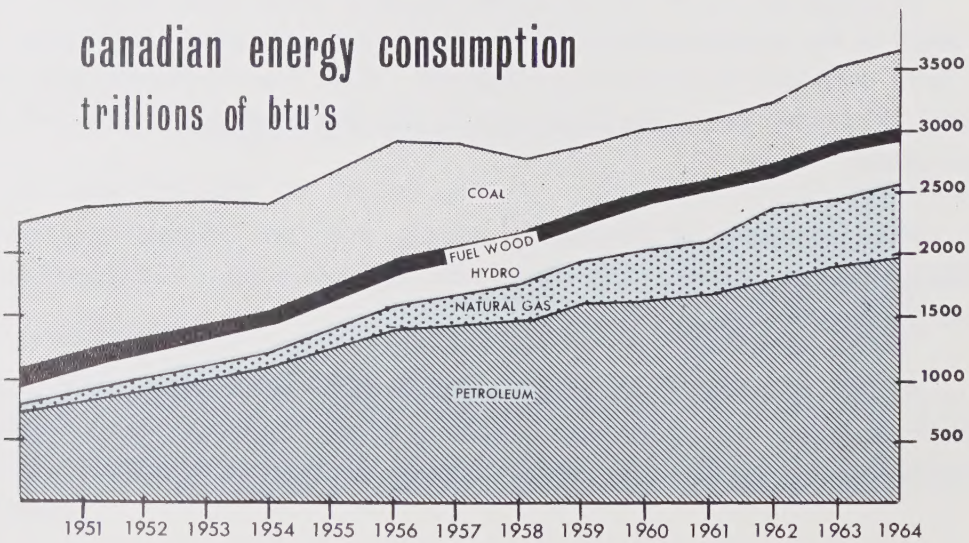
At current prices the shares are some 35% below discounted present worth of nearly $31 per share. This is larger than the normal discount existing among the Canadian oil and gas exploration companies.

THE CANADIAN PETROLEUM INDUSTRY

It is expected that production of oil and natural gas will continue to rise during the next few years although the rates of increase likely will be below the rather spectacular levels of the past few years. The main influence on market prices of the exploratory oil stocks may be the results of the record level of exploratory drilling to be carried out in Northern Alberta in the search for the rich, although possibly elusive, Keg River reef.

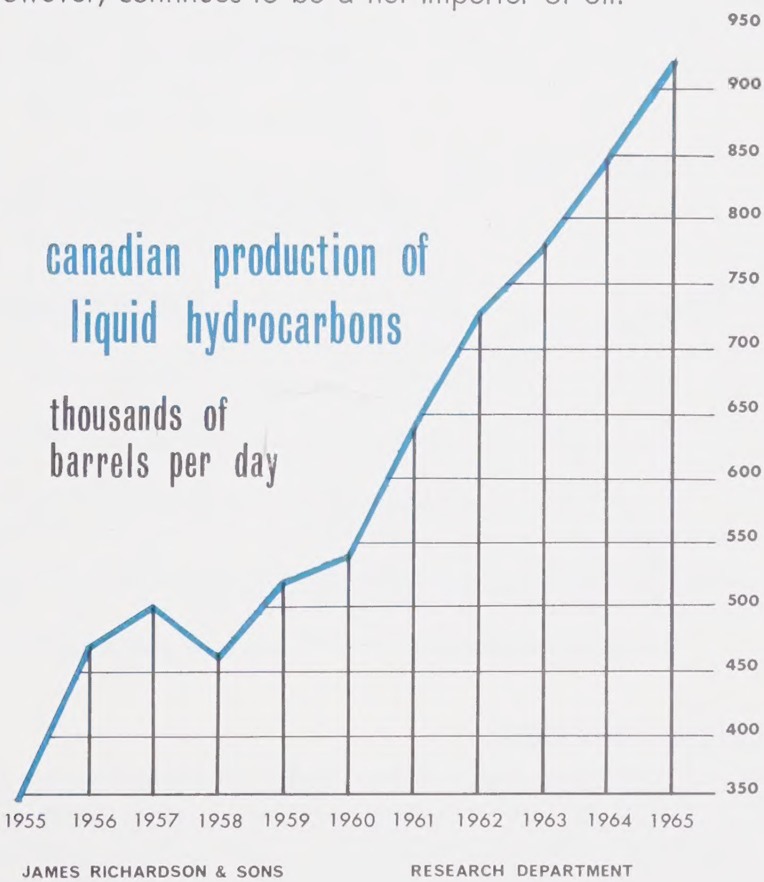
Petroleum is, by a considerable margin, the most important supplier of energy to Canada. At the present time, petroleum and natural gas meet some 71% of total energy needs, about 7% below the comparable position in the United States but considerably higher than in most other parts of the world. Canada is the world's second largest consumer of petroleum on a per capita basis.

Canadian requirements for oil are expected to increase for some time at a rate approximately equivalent to the rate of increase in total energy requirements. This has been averaging almost 5% annually during the past ten years. The rate of increase in natural gas consumption in Canada should substantially exceed this rate for several years. At the same time there are indications that Canadian exports of these commodities, primarily to the United States, will experience favourable growth patterns, although the rates of increase during the next few years may be below the rates experienced in the past five years.



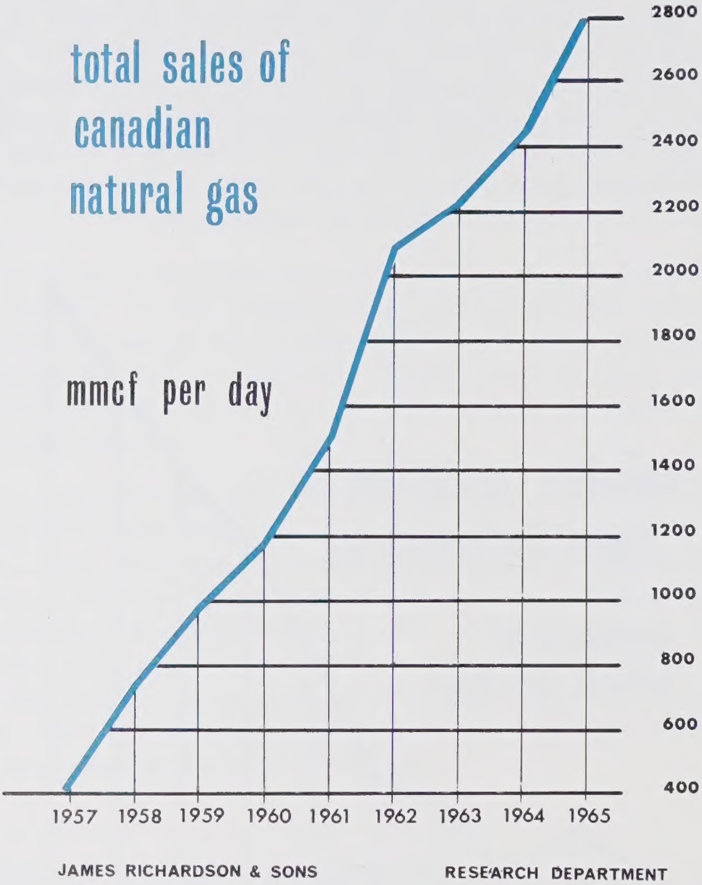
In the five years ending December 31, 1965 Canadian production of oil and other liquid hydrocarbons increased over 70% to a level of nearly 930,000 barrels daily in 1965, an annual compounded growth rate of around 14%. During the same period, natural gas sales increased 135% to around 2.8 billion cubic feet daily in 1965, equivalent to a growth rate of 24% annually.

A good deal of the growth in production was the result of the National Energy Board's demands in early 1961 for increased sales of Canadian oil. Domestic production is now supplying Canadian requirements west of the Ottawa valley. It has replaced offshore oil in the Puget Sound area of the U.S. Pacific Northwest and has assumed an important position in a portion of the U.S. Midwest, generally along the route of Interprovincial's pipeline. Canada, however, continues to be a net importer of oil.



In view of the fact that these markets are largely saturated and because U.S. buyers are limited in the quantity of oil which they may import from Canada, a somewhat lower growth rate in oil production is expected over the next few years, possibly in the order of 5% - 6% annually. Approaching the end of the present decade, there could be new factors influencing the demand for Canadian oil. There are prospects that around that time U.S. demand will again rise or, failing this, that the marketing area for Canadian oil may be extended to meet the needs of the large Montreal market.

Natural gas sales should continue to have a relatively high rate of growth in view of the low current level of saturation of Canadian markets and demand from the U.S. We estimate a rate of increase of about 10% annually through 1968.



PRO-RATIONING CHANGES

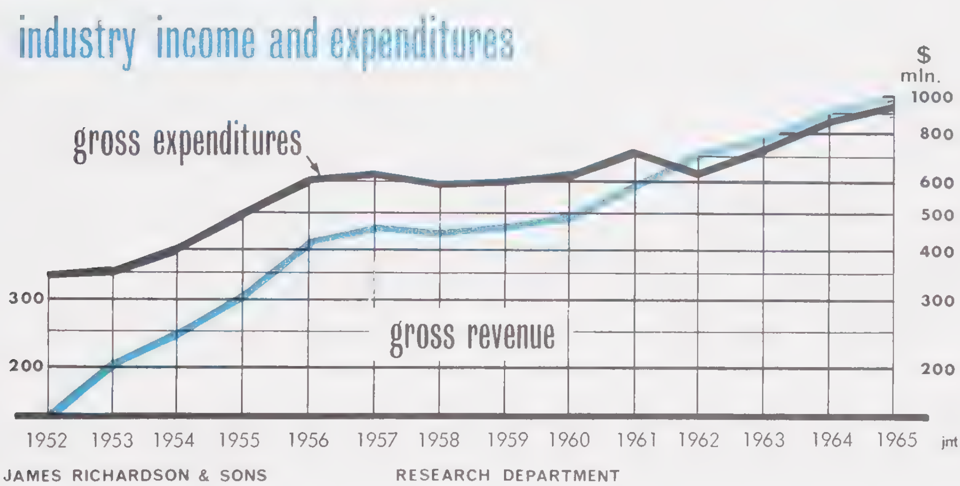
Substantial additions have been made to Canadian oil reserves in recent years, partly a result of new discoveries and partly a result of improved secondary recovery techniques. These large reserve increases have almost paralleled the rise in oil production and Alberta is still running at below 50% of maximum permissive rate.

In early 1965, a major change in the Alberta system of pro-rationing was announced — the basis under which production is allocated to the various oil fields. The pro-rationing formulae have tended to favour the low yielding marginal fields, at the expense of the high yielding or more productive fields. In the future, a larger proportion of the production allowable is to be allocated to the high yielding fields, with the main impact of the change to be felt in 1969.

Several oil companies, particularly among the majors, are expected to benefit from this change through important production increases. In view of the large overall growth in reserves and productive capacity which could occur during this period, however, it is doubtful that the pro-rationing changes will benefit them to the degree previously anticipated.

THE FINANCIAL TREND

The rapid growth in production during the past five years has had a significant impact upon the financial positions of most of the companies in the industry. It was not until 1962 that annual income of the companies in the exploration and production side of the industry exceeded annual expenditures. After many years of reporting losses or relatively small profits, the individual companies commenced to report profits at increasing levels each year. The rates of increase in these net profits and cash flows have been relatively large.



At the same time, dividends have become a feature. Most of the large exploratory companies have commenced payments while others are expected to do so over the next two years, although the bulk of oil company earnings are still being plowed back into operations.

Another feature during recent years has been the large number of "buyouts" and acquisitions among the exploratory oils, at prices substantially above pre-existing market prices for the shares. The reason for this has been, of course, the very low market evaluation of the oils relative to their "present worths" or asset values. It has, in effect, been as profitable in some cases to expand via the route of acquiring other companies as to directly purchase or explore for reserves. Most of the Canadian oils are presently selling at substantial discounts from their present worths.

EXCITING EXPLORATION PLAYS

The most important factor influencing share prices of the exploratory oils during the next several months likely will be the exploratory activity in northern Alberta and B.C. Exploration drilling is rising, as the operators are now able to move equipment over the frozen muskeg which covers such a large portion of the northern areas. As a result of this work, there are prospects of price improvement in a number of oil stocks.

In 1964 the exciting news came from the new Gilwood Sand play in the Mitsue Lake area near Lesser Slave Lake, Alberta, and resulted in important oil reserve additions to a number of companies. An extension of this play to Nipisi, a few miles to the north, resulted in high prices at Crown land sales in 1965.

Further exploratory developments can be expected this winter from a number of areas, including the following—

The Gilwood Sand trend around Lesser Slave Lake;

The Obed area near the foothills where a major Devonian gas find has been indicated and where prices paid for drilling reservations have been very high, probably based on seismic indications;

The Gold Creek area near Grande Prairie, where a wet gas field of major size is being developed;

The Crimson Lake area northwest of Calgary where a significant wet gas and oil discovery is being developed;

Scattered areas of northern Alberta and B.C. where work is commencing now that the muskeg is frozen.

Most exciting, however, is the general Rainbow Lake area of extreme northwestern Alberta.

RAINBOW LAKE DISCOVERIES

The initial oil discovery at Rainbow Lake was made by Banff & Associates in February, 1965 and opened up an entirely new exploratory play in the Keg River zone of the Devonian formation. Four additional oil discoveries have been made, despite all the difficulties and expense of drilling in this muskeg-covered region during the summer months.

Unfortunately, very little is known about these finds, as the oil companies have held the information tight in order not to assist competitors at Crown land sales. It is generally recognized in the industry, however, that some of these wells have opened up extremely thick productive zones, in a pinnacle reef structure geologically similar to Golden Spike near Leduc, and that already a significant amount of oil has been found. This contention is supported by the present construction of a large diameter (20 inch) pipe line from the area.

It was thought initially that a large blanket-type pool would be developed at Rainbow. Work to date — including a few abandonments and low prices on certain offset Crown leases — indicates, however, that a series of pools are being found, generally small in area although rich in quantity of reserves. Seismic work appears to have been fairly effective in locating these individual pools, and some of the high prices paid for drilling reservations seem to have been based primarily upon seismic information as there are very little data available from well control.

A very high level of activity is expected this winter at Rainbow and throughout a broad area running generally north and west from the discovery area. More than 30 rigs are expected to be active and a number of very important exploratory wells are planned. While disappointments are to be expected, the payoff for success is large. Those companies with broad acreage exposures in the area are in the best positions to benefit during the next two years.

At present, the Keg River reef in the general Rainbow Lake area is the prime target and "romance" area in Alberta. Developments during the next few months will have an important influence on share prices of a number of companies.

* * *

CANADIAN SUPERIOR OIL LTD.

The Company was incorporated in 1943 (Dominion charter) although actual drilling operations did not commence until 1949. Prior to that date Canadian Superior carried on an active policy of freehold lease acquisition in the three Prairie Provinces. This was followed in the 1950's by a very active policy of evaluation of these leases, both through direct drilling participations and farming out acreage to other companies for evaluation.

Canadian Superior is owned 53.6% by The Superior Oil Company, of the United States. Initial public financing was carried out in 1950 when 2,150,000 shares were offered in the U.S. and Canada at a price equivalent to $11.00 Canadian Funds. In 1961, the Company offered to its shareholders the right to subscribe for 1,200,000 shares at a price of $8.75 each, Canadian Funds. The proceeds of about $10,500,000 were used to discharged indebtedness to two U.S. banks.

In 1962, The Superior Oil Company (U.S.) purchased a substantial share interest in The Calgary & Edmonton Corporation. In 1965 Canadian Superior made an offer to the shareholders of Calgary & Edmonton to acquire their shares on the basis of 1.16 shares of Canadian Superior for each Calgary & Edmonton share. All of the shares of Calgary & Edmonton have been acquired and the two companies are being amalgamated. In effect, this represented a merger of the two oil companies in Canada controlled by The Superior Oil Company. This report reflects a consolidation of these assets.

Aside from the acquisition of The Calgary & Edmonton Corporation in 1965, which was a little less than half the size of Canadian Superior, the main policy of Canadian Superior has been to expand through exploration and development of its properties rather than through the purchase of proven and semi-proven lands. This is similar to the approach of its parent company, which has been a well known "wildcatter" in the United States for many years.

The assets of Calgary & Edmonton complement those of Canadian Superior, particularly in the foothills northwest of Calgary where both companies were engaged in production and processing operations. In addition, the acquisition brought to Canadian Superior a substantial amount of additional land, including mineral title to some 1,142,000 acres, and increased production and revenues.

Size has become an important factor in the development of major exploration plays in Western Canada and the acquisition places Canadian Superior in a better position to take advantage of opportunities.

LAND AND EXPLORATION

Canadian Superior has been very active in land acquisition and exploration in the tradition of its parent. Its land play extends throughout most of Western Canada. Aggressive exploration policies backed by sound technical direction have resulted in the Company participating in a number of important new oil areas. Of significance at present is the large amount of acreage held in the Keg River reef play of northwestern Alberta, some of it close to the Rainbow discoveries.

From commencement of drilling activities in 1949 to the end of 1964, Canadian Superior participated in the drilling of over 2,000 wells in Western Canada. These include not only oil wells, gas wells and abandonments drilled as wholly-owned and jointly-owned wells, but also wells drilled under farmout arrangements and dry hole, bottom hole and other contributions.

In 1964, the Company participated in 90 gross wells (28.9 net), resulting in 12.7 net oil wells, 3.3 net gas wells and 12.9 net abandonments. Exploratory drilling accounted for 16.7 net wells while development drilling accounted for 12.2 net wells.

The level of operations rose in 1965 as a result of the acquisition of Calgary & Edmonton as well as an overall higher level of activity. The Company would have participation in the drilling of 59 development wells and 96 exploratory wells, resulting in 29 net oil wells, 6 net gas wells and 22 net abandonments.

Exploration and development drilling and seismic expenditures probably totalled around $8,100,000 in 1965, compared with $3,748,141 in 1964. Land acquisition costs may have totalled $10,000,000 in 1965 compared with $2,174,086 in 1964. The Crimson Lake land purchases plus the cost of acquisition of two small land holding companies (Ross Security Assets and Ross Contract Assets) make up the major part of the land acquisition costs.

The present Canadian land holdings of the Company are extensive, and at last report amounted to approximately the following net acres (for a further breakdown see Appendix "B").

Non-Producing Lands	Net Acreage *
Alberta	3,630,000
Saskatchewan	830,000
British Columbia	485,000
Manitoba	negligible
N.W.T. and Yukon	644,000
Arctic Islands	286,000
	5,875,000

* Does not include approximately 1,200,000 unproven acres of mineral title in Alberta.

In addition, substantial acreage is owned outside of Canada. Details are given on page 21.

Included among the Canadian holdings are large acreage participations in a number of currently attractive exporation areas, most prominent being Rainbow Lake, Crimson Lake, Olds and Crossfield.

KEG RIVER REEF

In the extreme northwestern corner of Alberta some 500,000 acres are held, all of this within the area considered to be part of the Keg River reef play which has created considerable excitement at Rainbow Lake. Most of this acreage is in reservation form. Included is about 100,000 acres some 15 miles northeast of the Rainbow discoveries and a large block in which one-third interest is held about 15 miles southwest of the discoveries. Seismic work will be conducted over much of the area and at least two exploratory wells will be drilled on the block northeast of Rainbow and possibly one well to the southwest this winter. Any favourable results on or near these lands could have an important influence on share prices.

CRIMSON LAKE

Early in 1965 a significant gas and oil discovery was made, in association with another company, at Crimson Lake, some 105 miles northwest of Calgary. Five wells have now been completed, indicating the presence in the Cardium Sand of a gas cap with condensate which is underlain by an oil column. Very little information has been released because of Crown land sales in the area. Canadian Superior has been an active participant in these sales and prices paid have been high. The Company has an approximate 50% interest over an area 17 miles long and 3 miles wide in what is considered to be the prospective area of the new field. Development drilling is continuing.

OLDS

In the Olds area, 50 miles north of Calgary, a high gravity oil discovery was made jointly with another company in 1965 and tested at a rate of 296 barrels daily from 34 feet of net pay. Discovery was made in the Wabamun formation of the Devonian. To date four wells have been completed by Canadian Superior and its partner.

CROSSFIELD

At Crossfield, just south of Olds, four wells have been completed to a sour gas reservoir in the Wabamun zone, with net pay varying from 53 to 89 feet. One was also a gas discovery from the Elkton zone of of the Mississippian.

Canadian Superior appears to be moving into a more active exploration phase as indicated by 1965 expenditures. Expenditures in 1966 are unlikely to decline much from this level.

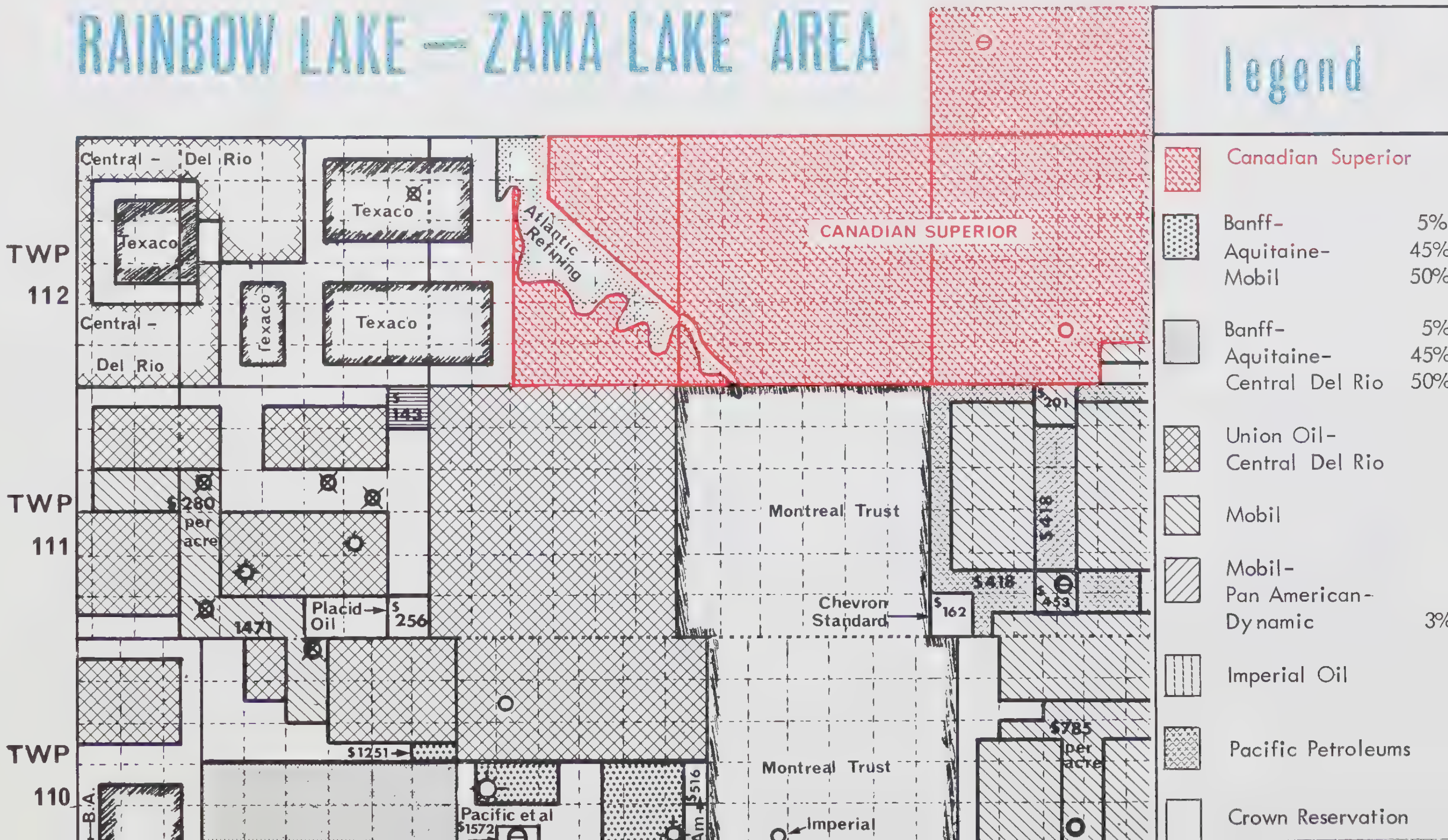
PRODUCTION AND RESERVES

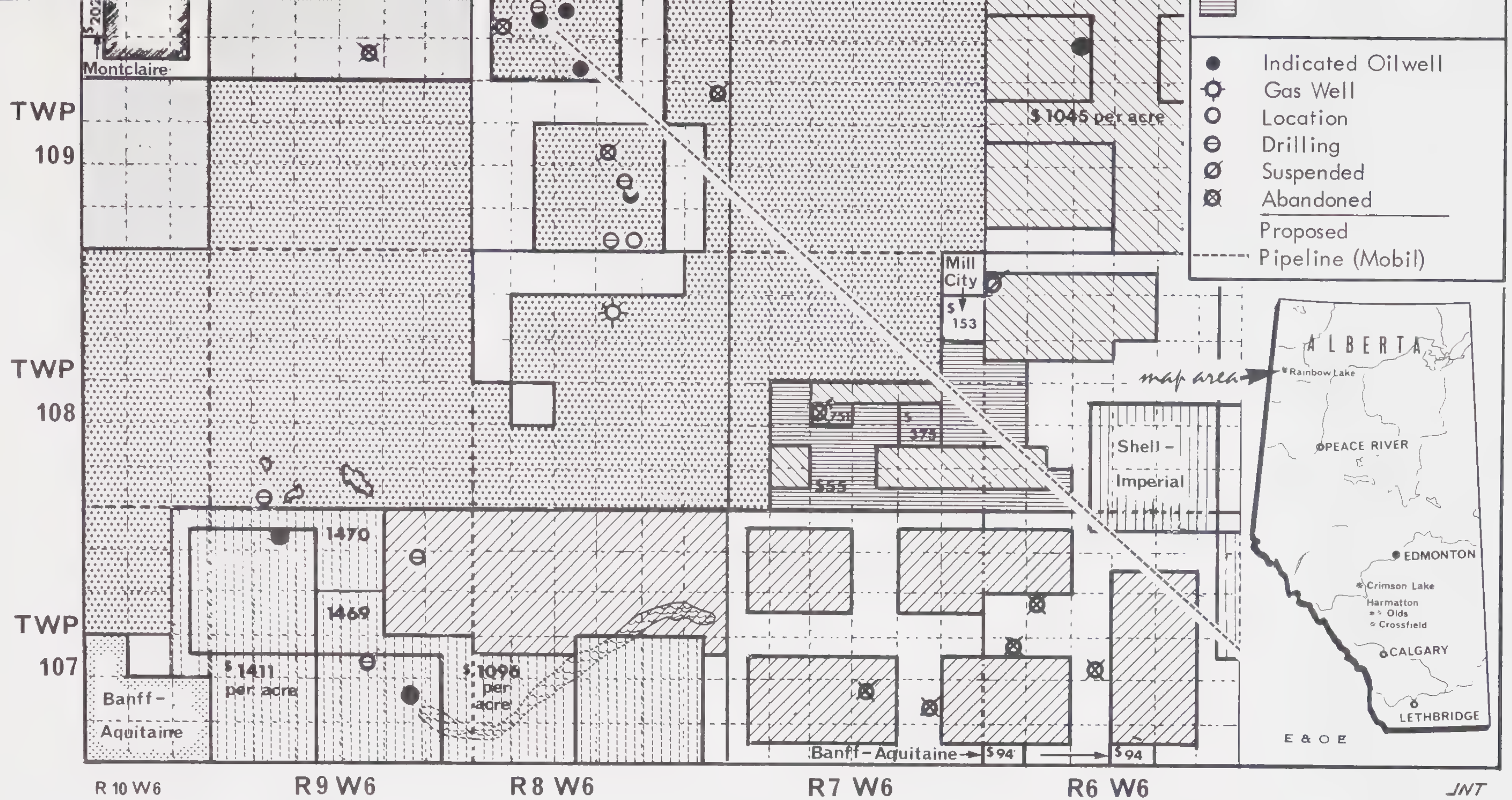
Canadian Superior has experienced rapid expansion in oil and natural gas production. During the next two or three years, oil production may tend to plateau, although income from condensate, natural gas, liquid petroleum gas and sulphur is expected to move ahead at a good rate, to the point where this may soon represent 50% of operating revenue.

At the end of 1964, Canadian Superior had 401 net oil wells and 45 net gas wells. With inclusion of Calgary & Edmonton Corporation along with results of 1965 operations, these rose to 505 net oil wells and 66 net gas wells at the end of 1965.

Production increased steadily during the 10 years ended 1964, amounting to an average annual compounded rate of increase of 22% in oil and condensate. Natural gas production did not become a factor until 1958, but has risen rapidly since that time as indicated by the accompanying table. In recent years liquified petroleum gas and sulphur have contributed to revenues in rapidly increasing amounts.

RAINBOW LAKE — ZAMA LAKE AREA





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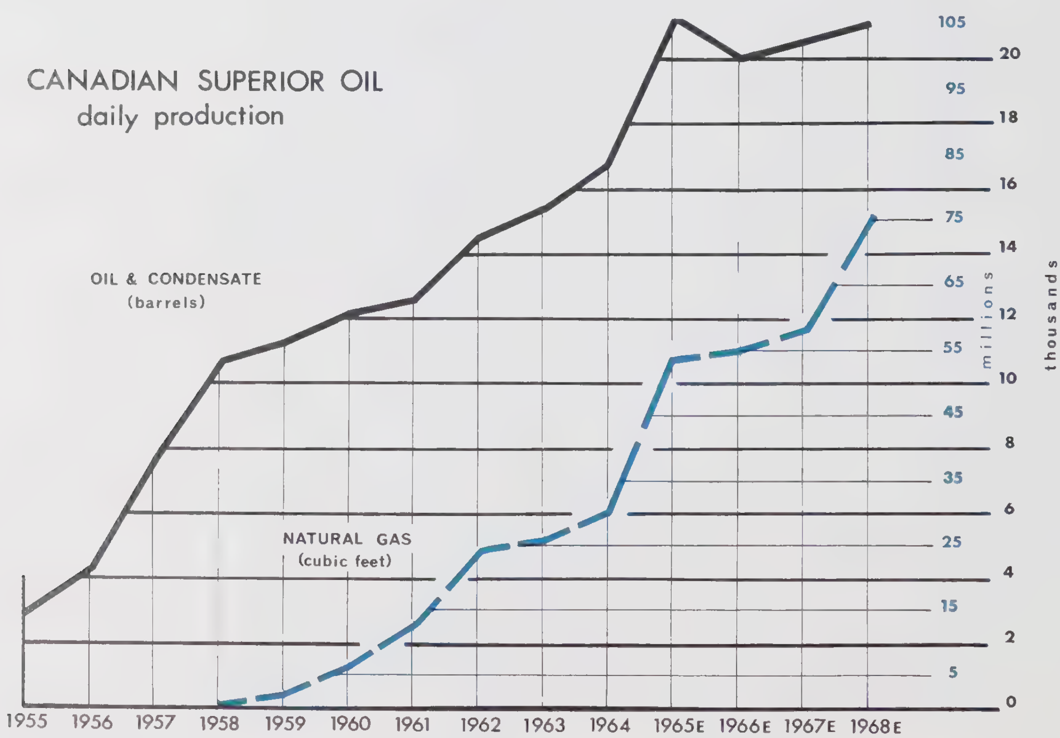
RESEARCH DEPARTMENT

January 10, 1966

NET DAILY PRODUCTION

Year	Oil and Condensate (barrels)	Natural Gas (MCF)	L.P.G. (barrels)	Sulphur (Long Tons)
1955	2,882	—	—	—
1956	4,049	—	—	—
1957	7,458	—	—	—
1958	10,464	95	—	—
1959	11,043	2,090	—	—
1960	12,095	6,630	—	—
1961	12,512	13,477	—	10
1962	14,552	24,110	—	15
1963	15,396	25,853	—	16
1964	16,795	30,408	310	15
1965*	21,000	54,000	800	45
1966*	20,000	55,000	1,700	150
1967*	20,500	58,000	2,200	325
1968*	21,000	75,000	2,400	575

* Figures 1965-68 are estimated and are based upon inclusion of The Calgary & Edmonton Corporation. A portion of the production is royalty.



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The foregoing production estimates are based primarily on production from reserves presently proven. It will be noted that crude oil and condensate production may tend to decline slightly in 1966. This is largely a result of the change made in the production allowable formulae some years ago and its movement into the final stage on July 1, 1965. In effect, this was a change from the "initial allowance" to an "operating allowance".

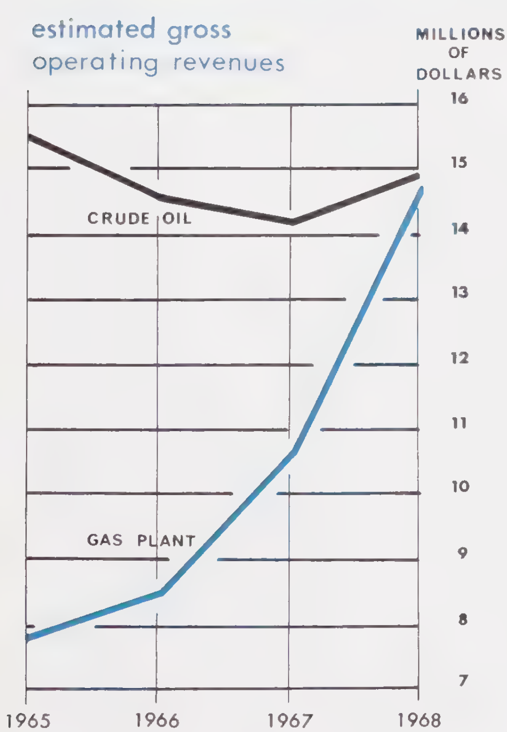
In actuality, new sources of production could result in a more favourable oil production trend than estimated.

The recent pro-rationing changes are not expected to have a material influence upon Canadian Superior's oil production. While it may decline from certain fields, this should be approximately offset by increases from other oil fields.

During recent years Canadian Superior has made large expenditures on natural gas processing plants, and income from natural gas, natural gas liquids and sulphur is climbing rapidly. Canadian Superior had participated in the contruction of 17 plants by the end of 1964 at a cost of over $8,000,000. Calgary & Edmonton had participated in 5 plants plus a crude stabilization plant at Innisfail at a total cost of $1,300,000.

The total number of plants in which the combined companies had interests at the end of 1965 was 18 (there was some duplication), with the interests varying from 0.04% to 37%. In addition, income is obtained from royalties on the output of 9 processing plants. A sour gas plant (for recovery of sulphur) is under construction at Harmattan at a cost of $7.5 million. Canadian Superior will have 42% interest in the plant, expected on stream in the third quarter of 1966. The general Harmattan area will become an extremely important source of revenue to the Company.

CANADIAN SUPERIOR OIL



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Revenues from sources associated with the Company's gas plants (condensate, natural gas, liquid petroleum gas and sulphur) are expected to continue to rise more rapidly than revenues from oil production. We expect that in about 1968 revenues from this source will be approximately equivalent to revenues from crude oil production. Total revenues in that year should experience a substantial improvement, largely a result of production from certain gas areas currently being developed.

ESTIMATED GROSS OPERATING REVENUE

	Crude Oil	Gas Plant
	(millions of dollars)	
1965	$15.5	$ 7.8
1966	14.6	8.4
1967	14.2	10.6
1968	14.9	14.7

RESERVES

Prior to the share exchange offer made by Canadian Superior to the shareholders of Calgary & Edmonton, reserve estimates were prepared on both companies by McDaniel Consultants Ltd. These represent "proven" reserves and do not include "probables". Following is a summary of these reserves, as at December 31, 1963. They do not include additions made to reserves since that date.

NET PROVEN RESERVES

	Canadian Superior	Calgary & Edmonton	Combined Total
Liquid Hydrocarbon Reserves — Barrels:			
Crude Oil—			
Alberta	53,060,000	19,703,000	72,763,000
Saskatchewan	23,182,000	—	23,182,000
Manitoba	1,475,000	—	1,475,000
British Columbia	—	19,000	19,000
	77,717,000	19,722,000	97,439,000
Condensate—			
Alberta	27,764,000	6,264,000	34,028,000
Saskatchewan	93,000	—	93,000
	27,857,000	6,264,000	34,121,000
Liquid Petroleum Gas—			
Alberta	23,730,000	3,898,000	27,628,000
Saskatchewan	362,000	—	362,000
	24,092,000	3,898,000	27,990,000
Total Liquid Hydrocarbon Reserves	129,666,000	29,884,000	159,550,000

Pipeline Residue Gas Reserves — Mmcf:			
Alberta	955,000	386,000	1,341,000
Saskatchewan	5,000	—	5,000
British Columbia	—	1,000	1,000
Total Pipeline Residue Gas Reserves	960,000	387,000	1,347,000
Sulphur — Long Tons:			
Alberta	3,336,000	2,125,000	5,461,000
Saskatchewan	2,000	—	2,000
Total Sulphur Reserves	3,338,000	2,125,000	5,463,000

Of the Calgary & Edmonton reserves, 39% of the crude oil, 35% of the condensate, 32% of the liquid petroleum gas, 56% of the pipeline residue gas and 13% of the sulphur are attributable to royalty interests. These reserves may be attributed a higher relative value than working interest reserves as production costs are negligible.

It is interesting to note that for each share of Canadian Superior presently outstanding there were approximately 18.8 barrels of liquid hydrocarbons, 158 MCF of natural gas and .64 long tons of sulphur. As mentioned previously, a portion of these reserves are attributable to royalty interests and have a slightly higher value.

OTHER INTERESTS

In addition to normal oil industry operations in Canada, Canadian Superior is actively participating in oil exploration in other parts of the world and, in a small way so far, in the Canadian mining industry.

These interests would not be considered significantly valuable in relationship to the Company's total assets and the odds against any individual "play" being successful are larger than normal. On the other hand, the pay-off could be very large should exploration prove successful in any of these areas:

Area	Gross Acres	Net Acres
Australia and New Guinea	46,650,000	7,289,000
North Sea (U.K. area)	1,802,000	60,700
Offshore Oregon and Washington	376,000	24,000
Offshore Texas and Louisiana	—	—

Australia and New Guinea — Seismic work has been conducted on a portion of this acreage preparatory to actual drilling.

North Sea — Seismic work has been conducted on the 1.8 million acre block in which 3⅓% net interest is owned and drilling is expected to commence within a few months. It is interesting to note that a significant gas discovery has been made by British Petroleum on acreage offsetting one of the blocks in which Canadian Superior has an interest.

Offshore Oregon and Washington — Seismic work has been carried out and an exploratory well was commenced in the fall of 1965. This well subsequently was suspended. Canadian Superior has 6¼% interest in this acreage.

Offshore Texas and Louisiana — Canadian Superior has 5% interest with a group which is doing seismic preparatory to acquiring acreage.

Mining — A mining exploration company has been formed in association with the parent company. Canadian Superior has 25% interest in this company. Interests are held in a number of exploration projects in partnership with other companies. In most cases the partners are experienced in the mining field.

Total cost of exploration work and property acquisition in areas outside of Canada was $1,440,569 in 1964. This probably was lower in 1965 but, may rise again in 1966.

FINANCIAL GROWTH

Canadian Superior has shown rapid growth in revenue, cash flow and net income per share. Projections indicate that in 1966 revenue and cash flow will level out, and earnings decline, although additions to reserves and production during the period could result in a better trend. Accounting methods are conservative. Under the "full cost" method (and not including a reserve for future taxes) earnings would have been more than double those reported by Canadian Superior in 1964.

The following tabulation indicates the rapid growth of the Company during the past several years. Estimates for the years 1965-67 indicate that revenues, cash flows and earnings per share may plateau around 1965 levels for a period. In 1968, these figures may move substantially higher.

There are basically three reasons for this. Firstly, oil production from present sources is likely to change very little during the period, as commented upon earlier (page 19). In actuality of course, new sources of production could result in higher figures than currently indicated.

Secondly, the acquisition of Calgary & Edmonton resulted in a small dilution in per share earnings. Much of the value of Calgary & Edmonton lay in its non-productive acreage. While this should contribute to earnings

in an important way at some time in the future, it is not presently doing so. If the statements of Canadian Superior and Calgary & Edmonton were consolidated for the 1964 fiscal year and the Canadian Superior accounting methods were followed, net cash flow would have been about $2.05 and net profit about 80 cents per share, rather than the $2.28 and 96 cents per share, respectively, which were reported by Canadian Superior alone.

Thirdly, Canadian Superior has considerably expanded its spending on exploration and drilling. As it follows the conservative policy of charging these to expense in the year incurred, they have the effect of reducing earnings.

The projected revenues from production are based primarily upon present sources. It is not feasible to attempt to project the results of the exploratory expenditures which will be made in the future, although it is very probable that these will improve revenues beyond the projections presented below.

The principal reason for the sharp rise in 1968 figures is the large increase in gas plant production, as previously discussed.

	GROSS REVENUE		CASH FLOW		NET INCOME	
Years[1]	Total (000)	Per Share	Total (000)	Per Share	Total (000)	Per Share
1959	$ 9,792	$2.19	$ 5,353	$1.20	$ (146)	$ (.03)
1960	10,427	2.33	6,008	1.34	1,131	.25
1961[2]	11,273	1.98	6,911	1.21	1,410	.25
1962	14,657	2.57	10,196	1.79	3,686	.65
1963	15,895	2.79	11,053	1.94	4,377	.77
1964	18,057	3.17	13,007	2.28	5,469	.96
1965[3]	24,500	2.88	18,300	2.15	5,400	.64
1966[3]	24,100	2.84	17,200	2.02	3,100	.36
1967[3]	25,800	3.04	18,700	2.20	4,700	.55
1968[3]	30,600	3.60	23,200	2.73	8,600	1.01

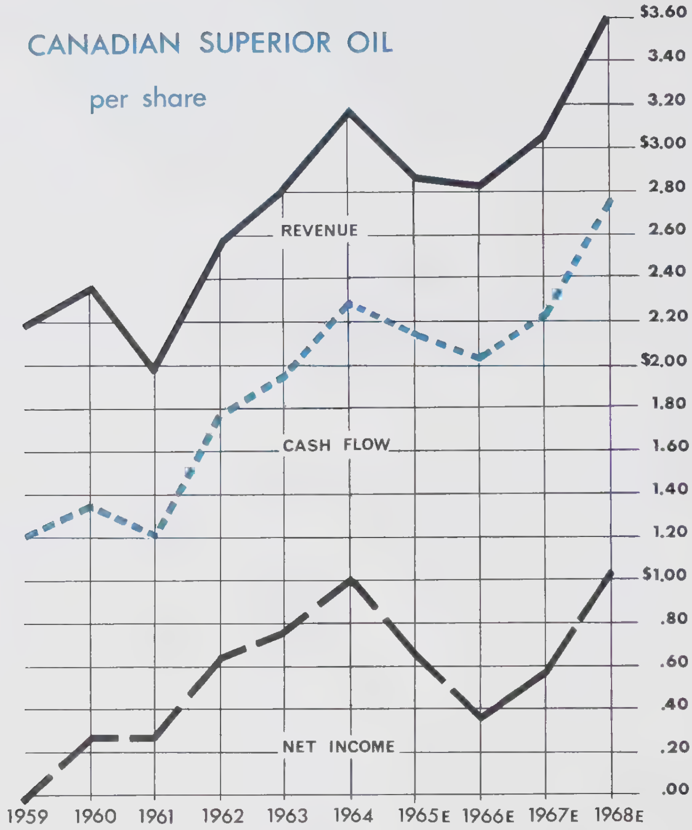
[1] Fiscal years ended August 31 prior to 1962, thereafter December 31. In the years prior to 1959, accounting system was based upon expenses less income being capitalized as exploration and pre-production expenditures. The years 1965-68 include the revenues from Calgary & Edmonton and the additional shares outstanding.

[2] Additional 1,221,000 shares were issued in 1961 through a rights offering to shareholders.

[3] Estimated.

The "cash flow" calculations are based upon the inclusion of all income after deducting normal operating expenses and land retention costs (lease renewal fees, etc.) but before deducting non cash write-offs or expenditures which are made to expand further the reserves or earning power of the Company. The cash flow figures include, therefore, net profit

plus: write-offs for leases abandoned, depreciation and depletion; amortization of exploration and preproduction expenditures incurred prior to September 1, 1958; exploration; intangible drilling costs of productive wells and dry holes.



During the five years ended December 31, 1964, the following approximate compounded annual growth rates were experienced by Canadian Superior (not including Calgary & Edmonton):

	Total	Per Share *
Gross revenue	15.6%	15.5%
Cash flow	19.6%	16.6%
Net profit	53.5%	47.5%

* Based upon shares outstanding at each year end.

The most significant figure to use when comparing the Canadian oil and gas companies is that designated as cash flow. The major differences in accounting procedures from one company to another results in reported net profit being of limited value for comparative purposes, except in cases where accounting methods are similar. The system followed by Canadian Superior may be considered highly conservative insofar as reported net income is concerned.

Many of the Canadian oil and gas exploration companies are changing to "full cost" accounting, whereby charges are made against income only if related to the cost of the income received during the year or if associated with the administrative or coporate cost of operating the company. Conversely, all expenditures incurred for finding, acquiring and developing reserves initially are capitalized in the accounts. These capitalized expenditures are amortized over the life of the reserves on a unit of production basis.

In the case of Canadian Superior, the significant points in its accounting system are:

1. Depletion of producing properties is being provided for by the unit of production method, based on estimated recoverable reserves.

2. Depreciation is provided by the diminishing balance method at near maximum rates allowed for tax purposes (30% on production equipment and 10% on gas plant).

3. Intangible drilling expenditures applicable to both producing wells and dry holes are charged to income in the year incurred.

4. Exploration and pre-production expenditures incurred prior to August 31st, 1958 are being amortized annually on the basis of recoverable reserves.

Among the companies following "full cost" accounting, there is some degree of difference as to the expenses which should be capitalized. Dependent upon these differences (and not including a reserve for future tax), it appears that Canadian Superior would have reported a net profit of over $2.00 per share in 1964 if it had followed full cost accounting, rather than the 96 cents actually reported.

No income taxes have been paid to date by Canadian Superior because of available tax credits. At the end of 1964, these credits (combined with those of Calgary & Edmonton) totalled about $9 million and increased further in 1965. In view of the enlarged scale of land acquisition and exploration, it does not appear that income taxes will be payable any earlier than 1969.

Rising expenditures will likely defer initiation of dividends on the common shares until possibly 1967. These payments initially may be nominal, as it is the Company's policy to utilize internally generated funds for expansion.

Working capital is strong. At the end of 1963 it totalled $9,988,454 and in 1964 it rose to $14,767,538. The large increase in 1965 expenditures resulted in utilization of the year's cash flow plus a portion of the working capital, so that working capital would be lower at the end of 1965.

PRESENT WORTH

Set out below is a summary of calculations on the present worth of Canadian Superior. The oil and gas reserves, which make up a major part of the value, are based upon the reserve estimates of McDaniel Consultants dated December 31, 1963. No value is included for the increase in reserves since that date.

The methods used in arriving at these present worth figures may be found in Appendices A, B and C.

	Total Value	Per Share
Reserves	$203,684,000	$23.96
Unproven properties	6,060,000	4.24
Other Assets	23,240,000	2.74
	$262,984,000	$30.94

The above present worth figures are intended to reflect the actual value of the assets of Canadian Superior at the present time. In other words, the figures are estimates of the amounts which would be receivable by the Company were it to liquidate and dispose of its assets under normal competitive conditions.

The figure of $30.94 indicates the shares at $20 are presently selling at a discount of 35% from present worth or liquidation value. While it is true that most of the Canadian oils are selling at discounts, the one existing in the case of Canadian Superior is larger than normal.

PRICE RANGE *

	High	Low
1965	$26¾	$16⅝
1964	21¼	15¾
1963	Not Listed	
1962	Not Listed	
1961	14	11
1960	12⅝	8

* The shares were delisted from the Toronto Stock Exchange on February 22, 1961 because of the issuance by the Company of non-transferrable rights to buy additional shares. The Company again listed its shares on May 14, 1964.

ARTHUR ERNEST FELDMEYER

President and Managing Director

Born in Sonoma County, California, Mr. Feldmeyer earned his degree in Geology at the University of California, Berkley, in 1937 and joined The Superior Oil Company in July of the same year.

In 1943, when Superior first carried out geological investigations in Canada, 'Art' Feldmeyer spent 2½ years in Alberta. Subsequently, he came back to Calgary in 1950 to head up Canadian Superior Oil Ltd. and was elected President and Managing Director in 1955.

OFFICERS AND DIRECTORS

President and Managing Director	A. E. Feldmeyer
Vice-President (Production)	E. R. Barnett
Vice-President (Engineering)	D. L. Bohannan
Vice-President (Land)	R. B. Lawson
Manager of Exploration	H. J. Caine
Treasurer and Comptroller	J. W. Pyle
Secretary and General Counsel	D. C. L. Jones

Other Directors:

T. F. C. Frost
H. B. Keck (President of The Superior Oil Company)
W. M. Keck, Jr. (Director of The Superior Oil Company)
G. H. Steer, Q.C.

Canadian Superior has, at present, 236 employees after absorbing the staff of The Calgary & Edmonton Corporation.

APPENDIX "A"

RESERVE EVALUATIONS

	Reserves *	Present Worth Per Unit		Present Worth (thousands)
Oil and gas liquids (participation)..	148,418 M bbls.	0.85	=	$126,155
(royalty)	11,132 M bbls.	0.94	=	10,464
Residue gas (participation).............	1,130 BCF	0.035	=	39,550
(royalty)	217 BCF	0.05	=	10,850
Sulphur (participation)	5,187 MLT	3.00	=	15,561
(royalty)	276 MLT	4.00	=	1,104
				$203,684

* M bbls.—Thousands of barrels. BCF—Billions of Cubic Feet. MLT—Thousands of long tons.

BASIS OF RESERVE EVALUATIONS

The foregoing values are based upon the following:

1. The 1964 rate of oil production was divided into total oil reserves to arrive at the number of years over which the reserves would be produced. This resulted in a figure of 20 years.

2. A net value per barrel of $2.16 is assumed for the oil and natural gas liquids. This figure is based upon an average weighted well-head price of $2.56 less productions costs of 40 cents per barrel.

3. The value of $2.16 is then reduced by 33⅓% to $1.44. This represents the reduction for income tax after a 33⅓% depletion allowance and a 50% taxation rate.

4. To the figure of $1.44 is applied a discount factor of 6% annually, representing the cost of borrowing against future production. Based upon the average life of the reserves of approximately 20 years, this results in an average value of 85 cents per barrel for the participation oil reserves.

5. Value of the royalty oil is based upon a similar 20-year rate of withdrawal. An average value of $2.56 per barrel is used, as costs would not be significant. The $2.56 per barrel is then reduced by 37½%, based upon a depletion allowance of 25% and taxation of 50%. The 6% discount factor is then applied, resulting in a value of 94 cents per barrel.

6. Residue gas values are based upon a rule of thumb value of 3.5 cents for the reserves in which participation interests are owned and 5 cents for royalty gas reserves. This latter figure is much higher partly because Calgary & Edmonton had made agreements whereby most of its royalty gas is free of processing costs.

7. Sulphur prices have risen considerably in the past year and the momentum may carry further. Current prices are in the order of $23 per long ton F.O.B. plant. On the other hand, much of the sulphur may be slow to reach market. Values of $3.00 per long ton for participation interests and $4.00 per long ton for royalty interests have been used.

APPENDIX "B"

UNPROVEN PROPERTIES

	Net Acres	Value Per Acre	Total Value
ALBERTA			
P & N G leases	1,540,000	$ 8.00	$12,320,000
Crown reservations	1,900,000	5.00	9,500,000
Mineral title	1,050,000	10.00	10,050,000
Indian permits	26,000	3.00	78,000
Block "A" permits	165,000	3.00	495,000
			32,443,000
SASKATCHEWAN			
P & N G leases	539,000	2.00	1,078,000
Mineral title	8,000	6.00	48,000
Crown permits	290,000	1.00	290,000
			1,416,000
BRITISH COLUMBIA			
P & N G leases	80,000	8.00	640,000
Crown reservations	300,000	4.00	1,200,000
Water permits	104,000	0.10	10,400
			1,850,400
NORTHWEST TERRITORIES AND YUKON			
Crown permits	644,000	0.50	322,000
ARCTIC ISLANDS			
Crown permits	286,000	0.16	28,600
			$36,060,000

NOTE:— The properties located outside of Canada have not been included. They would probably not have a significant total value.

BASIS OF VALUES OF UNPROVEN PROPERTIES

Lease acreage in Alberta and B.C. has been accorded an average value of 8.00 per acre. Half of the reservation lands must be returned to the Crown when converted to lease and warrant a lower value than lease lands. Most of the reservation lands are located in northern parts of Alberta and B.C., however, and have increased substantially in value as a result of the finding of a productive Keg River reef in the Rainbow area. This has, also, had some influence on values of the land located in Saskatchewan.

The total amount of mineral title land is reduced by approximately the portion which is presently productive. The \$10.00 per acre is based upon applying a \$3.00 per acre figure, plus a value for the very low carrying costs of the land. This is arrived at by assuming that the land, if it were held under lease, might be retained for an average period of ten years at a rental cost of \$1.00 per acre per year. To this \$1.00 per acre per year has been applied a 6% discount factor to reduce it to present worth. This results in a figure of approximately \$7.00 additional per acre. The lower than normal base price of \$3.00 is applied because some of the land is unattractive and would have been dropped were it not for the negligible carrying costs.

APPENDIX "C"

OTHER ASSETS

The figures in this category are mainly based upon the 1964 annual reports of Canadian Superior and Calgary & Edmonton and include working capital, deposits, prepaid expenses, investments (at market where available), etc. plus a value for the tax credits.

The amount included as the value for tax credits is based upon 33⅓% of the approximate amount available at the end of 1965, discounted at a 6% annual rate over a five year period. The 33⅓% is used because 33⅓% of profits are subject to depletion allowance, and tax credits may be applied on the remaining 66 2/3%. This is subject to a 50% tax rate, leaving the saving at a net 33⅓%. After application of the 6% discount the result is \$2,800,000.

SELECTED STATISTICS †

	1964	1963	1962	1961	1960	1959	1958	1957
Gross Revenue	**$18,056,646**	15,895,064	14,657,201	11,273,343	10,426,898	9,791,855	9,402,181	6,899,425
Cash Flow	**$13,006,791**	11,053,008	10,195,888	6,910,705	6,008,392	5,353,481	4,864,711	2,698,642
Per Share	**$ 2.28**	1.94	1.79	1.21	1.34	1.20	1.09	.60
Net Income (Loss)	**$ 5,468,908**	4,377,309	3,685,890	1,409,896	1,131,357	(146,111)	*	*
Per Share	**$ .96**	.77	.65	.25	.25	(.03)	*	*
Working Capital	**$14,767,538**	9,988,454	7,868,719	6,286,078	3,243,741	3,988,615	3,700,923	4,969,117
Intangible Drilling Expenditures	**$ 2,152,621**	2,204,382	2,061,498	2,160,180	1,641,708	1,961,318	3,164,807	4,783,026
Net Acreage in Canada (Exclusive of N.W.T. and Arctic Islands)	**2,819,051**	2,623,897	2,699,047	1,551,584	1,446,628	1,809,943	2,508,303	2,980,731
Net Oil Wells	**401**	400	392	362	340	323	300	255
Net Gas Wells	**45**	41	36	27	20	16	13	11
Average Net Daily Oil and Condensate Prod. (Bbls.)	**16,795**	15,396	14,552	12,512	12,095	11,043	10,464	7,458
Average Net Daily Gas Prod. (Mcf.)	**30,408**	25,853	24,110	13,477	6,630	2,090	95	—
Number Employees	**180**	170	172	160	157	162	171	179
Number of Shares Outstanding	**5,700,000**	5,700,000	5,700,000	5,700,000	4,479,000	4,479,000	4,479,000	4,479,000

* All expenses less income to August 31, 1958 were capitalized as exploration and preproduction expenditures. Effective September 1, 1958 the Company's accounting policy was changed to a "profit and loss" basis and the net exploration and preproduction expenditures capitalized to August 31, 1958 are being amortized on a unit of production basis.

† The figures for 1965 will change considerably as a result of the acquisition of The Calgary & Edmonton Corporation in exchange for shares.

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Affiliate

JAMES RICHARDSON & SONS, INC.

14 Wall Street, New York, New York 10005

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